



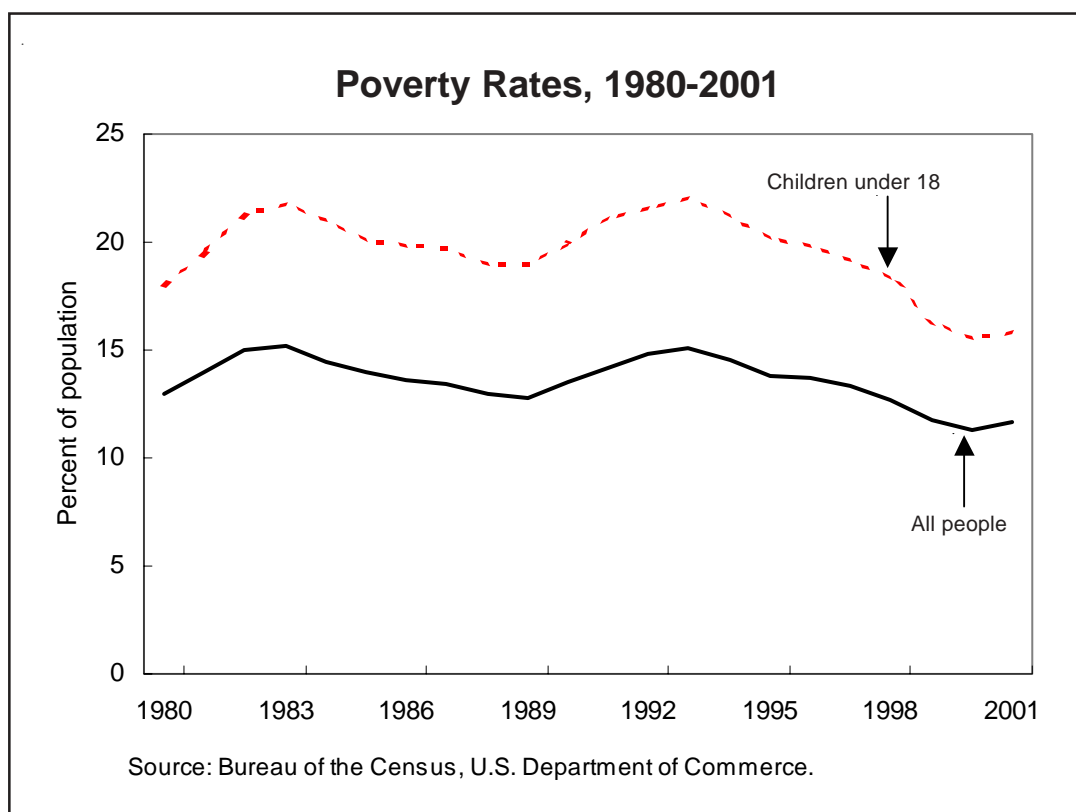
MONTHLY ECONOMIC MEMORANDUM

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JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
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POVERTY



The United States is one of the few countries that has an official definition of poverty. People in this country are counted as poor if their family incomes fall below the *poverty line*, a level of income that roughly approximates the amount required to meet basic needs. The poverty line varies with family size and with the number of children in the family. For example, a single mother with two children would be considered poor if her income was below \$14,269. A couple with two children would be counted as poor if their income was less than \$17,960.

The *poverty rate*—11.7 percent in 2001—is the percentage of people with family incomes below the poverty line. Poverty rates can also be defined for population subgroups, such as children. As the figure shows, the poverty rate has fluctuated over the past 20 years, rising in periods of high unemployment such as early 1980s and 1990s and falling during economic expansions. The increase in 2001 marks the first rise in the poverty rate since 1993.

The poverty rate for children follows the same general pattern as the poverty rate for all people, but poverty

rates for children have been consistently higher than rates for adults. The 2001 poverty rate for children is 16.3 percent, which means that almost one of every six children lives in poverty.

What Is Poverty?

The term “poverty” means different things to different people. To some, for example, poverty means lack of opportunity to advance or to make the most of one’s potential. Others see poverty as a relative concept—people might be considered poor if they have much less than most people in their society, even if what they have might be considered enough in some other context. Many European countries, for example, use unofficial poverty measures that are based on some percentage of the median income. (The median marks the middle of the income distribution: half the people have incomes below the median and half have incomes above it.)

The U.S. poverty measure is different. It focuses on whether people have enough income to meet basic needs such as a nutritionally adequate diet and decent housing. The official measure was developed in the 1960s and, except for inflation adjustments, it has not been changed substantially since then (see box below). Analysts have criticized the official measure for being outdated and unrealistic, both in its determination of the poverty line and in the measure of income that it uses to

compute whether or not families are poor. The Census Bureau now publishes alternative poverty measures that follow recommendations for revision made by the National Academy of Sciences (see box on page 3).

Who Are the Poor?

Poverty in the United States is strongly associated with low earnings and with the lack of a job. The figure on the last page shows that across all family types, households with at least one earner have much lower poverty rates than do households without earners. However, more than 38 percent of poor people aged 16 and over worked at least part time.

Lack of earnings contributes to poverty across all family types. But poverty rates also vary considerably among family types. Female-headed families with children have much higher poverty rates than do married-couple families with children, for example, even when both types of families have at least one earner.

Poverty rates also vary by age and race. One reason that poverty rates for children are so high is that a relatively large proportion of children live in single-parent families. A disproportionate share of children also live in minority families. The poverty rate was 21.4 percent for Hispanic Americans and 22.7 percent for blacks in 2001.

The Official Poverty Measure

Official U.S. poverty statistics are published by the Census Bureau every September, based on data about family incomes for the previous year. These data allow policy makers to track changes in poverty and need over time, and to focus on those groups of Americans who are faring least well in economic terms.

The current official poverty standard grew out of a series of studies undertaken by Mollie Orshansky for the Social Security Administration in the mid-1960s. At that time, the Department of Agriculture published a set of food budgets that calculated the minimum amounts that families of different sizes and types would have to spend on food to obtain a nutritionally adequate diet. Because the average family at that time spent about one-third of its budget on

food, Orshansky simply multiplied the food budgets for different family types by three to set their poverty lines.

Once Orshansky’s poverty scale had been published, it was widely used by other researchers. Finally, in 1969 a modified version of the Orshansky scale was mandated by the Bureau of the Budget (now OMB) as the standard poverty measure for government statistics as a whole.

The poverty measure has been updated for changes in price levels every year since 1969, but even though food now constitutes only about one-seventh of the average American family’s expenditures, the measure has not been updated to reflect changing patterns of consumption over time.

Alternative Measures of Poverty

Most statisticians agree that the official poverty measure is long overdue for a revision.

One major reason is that the poverty line is based on outdated patterns of consumption. Housing, medical care costs, and child care costs have all become a larger share of family budgets over time, while the share of food costs has declined.

In addition, the poverty line does not reflect differences in costs of living across geographic areas, and the adjustments for family size and type do not accurately reflect true differences in family needs.

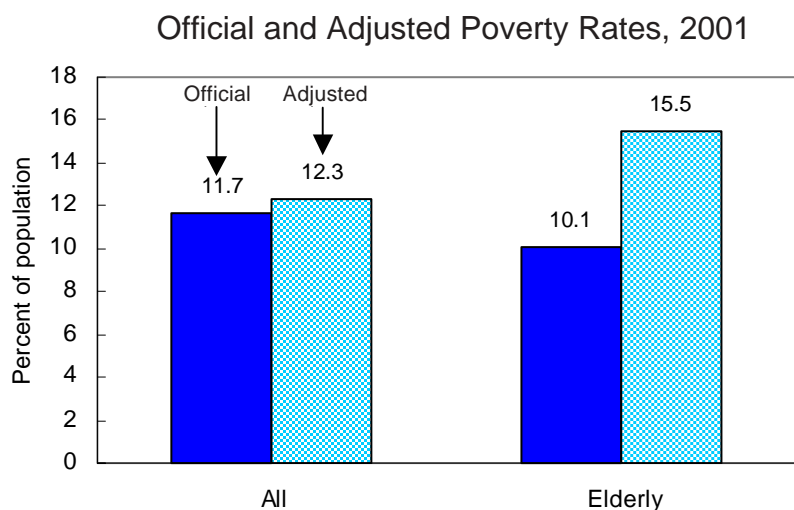
The income measure has also been criticized, because it does not include certain types of in-kind income such as food stamps and it does not take taxes into account.

In response to these concerns the Census Bureau now publishes a set of adjusted measures that reflect the recom-

mendations of a 1995 National Academy of Sciences report on measuring poverty.

The adjusted measure shown in the chart below takes into account medical expenditures, work expenses including child care, taxes and in-kind income, and geographic differences in costs of living. For all people, the adjusted poverty rate is only slightly higher than the official rate (12.3 percent, compared with 11.7 percent).

For the elderly, however, the differences are starker. The official measure of poverty for the elderly is lower than the official rate for all people, but the adjusted measure for the elderly is higher by a substantial amount. The main reason for this discrepancy is that the adjusted measure deducts the amount of money people have to pay out of pocket for necessary medical expenses in computing the income available to meet basic needs.



Source: Bureau of the Census, U.S. Department of Commerce.

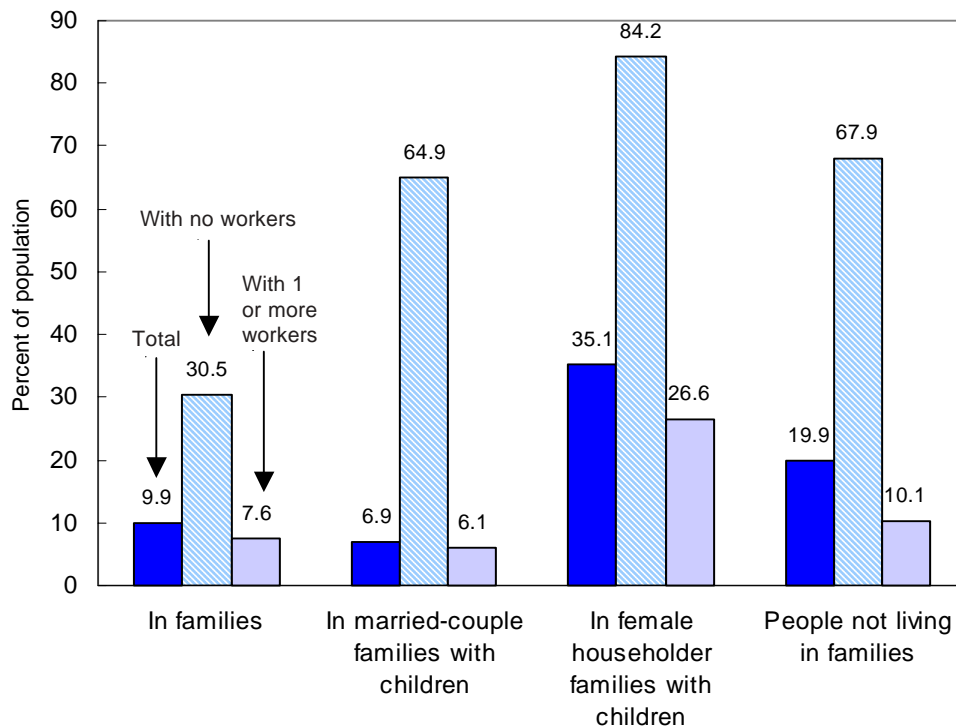
Note: The adjusted poverty measure shown is the Census Bureau's "MSI-GA" measure. For more details on its calculation, see U.S. Census Bureau, *Poverty in the United States: 2001* (Report P 60-219.)

How Poor Are the Poor?

The poverty rate captures one important aspect of poverty: the proportion of people with incomes below a certain threshold level. But need is not as black and white as the use of a specific cutoff implies. A family whose income is a dollar over the poverty line is not

counted as poor, even though its level of economic hardship is about the same as that of a similar family with a few dollars less income. More than 12 million people have incomes between 100 percent and 125 percent of the poverty line, and these people may also suffer substantial economic hardships.

Poverty Rates of People by Family Type and Work Status



Source: Bureau of the Census, U.S. Department of Commerce.

The poverty rate also fails to capture degrees of poverty. Yet, a family whose income is only half the poverty line is substantially worse off than one whose income is just under the poverty line. The average poor family had an income that was more than \$7,000 below the poverty line.

One measure of severe poverty—the proportion of the population whose incomes are below 50 percent of the poverty line—has increased in recent years. In 2001, 4.8 percent of all Americans, or 13.4 million people, lived in families with incomes that low. That total includes about 7 percent of all children and 8 percent of children under age 6. People with such low incomes are at severe risk of hunger and homelessness.

The official poverty line has been falling over time relative to the incomes of middle-income families. When Mollie Orshansky first calculated a set of poverty lines (for the year 1959), her estimate for a family of four

was about 49 percent of the median family income. Today, the poverty line for a family of four is only about 35 percent of the median. Thus, today's poor are farther from a middle-class standard of living than were the poor of several decades ago.

In part, this is a testimony to the economic growth that has occurred over the past 50 years, lifting the standards of living of most American families. But the distribution of income in the United States has also grown more unequal in recent decades. In the mid-1970s, for example, when overall poverty rates were about the same as they are now, households in the top one-tenth of the distribution had about eight-and-a-half times as much income as those in the bottom tenth. Today, the top tenth has more than ten-and-a-half times as much as the bottom. As those at the bottom find themselves farther and farther behind the rest of America, they become more at risk for alienation from the rest of our society.